

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-------------------------------------|---|------------|
| APPLICATION OF MCCREARY COUNTY |) | |
| WATER DISTRICT FOR A CERTIFICATE OF |) | CASE NO. |
| PUBLIC CONVENIENCE AND NECESSITY TO |) | 2012-00053 |
| CONSTRUCT, FINANCE AND INCREASE |) | |
| RATES PURSUANT TO KRS 278.023 |) | |

ORDER

On February 14, 2012, McCreary County Water District ("McCreary District") applied for a Certificate of Public Convenience and Necessity to construct a \$2,705,000 waterworks improvement project, approval of its plan to finance the proposed project, and an adjustment of rates.

McCreary District proposes major improvements to its Water Treatment Plant No. 1. This plant, which is located Whitley City, has been in operation since 1964 with only minor upgrades, improvements and renovations taking place during that period. The total cost of the proposed project, including legal, engineering inspection, and engineering design costs, is \$2,705,000.

McCreary District proposes to finance the proposed construction with the proceeds of the issuance of \$1,935,000 of Waterworks Revenue Bonds¹ to Rural Development ("RD"), an agency of the U.S. Department of Agriculture. These bonds will be issued in two series: (1) \$1,300,000 of Series A bonds which will mature over a

¹ While McCreary District refers to these bonds as "water revenue bonds," RD has expressly conditioned its purchase of the bonds and the award of the grant upon McCreary District's bond resolution containing "a combined pledge of water and sewer revenues." Letter from Thomas G. Fern, State Director, Rural Development, to Raymond Taylor, Chairman, McCreary District (July 22, 2011) at 3.

40-year period and accrue interest at a rate not to exceed 2.5 percent per annum and (2) \$635,000 of Series B bonds which will mature over a 40-year period and accrue interest at a rate not to exceed 2.25 percent per annum. The proposed project will also be funded in part by an RD grant of \$770,000.

McCreary District also proposes to increase its rates for water and sewer service to finance the increased debt service requirements. Under the proposed rates, an average residential customer who uses 5,000 gallons of water monthly will experience an increase of 10.06 percent in his or her monthly water bill and a 13.86 percent increase in his or her monthly sewer bill.

McCreary District has submitted its application pursuant to KRS 278.023. Notwithstanding KRS 278.020(1), KRS 278.180, KRS 278.190, and KRS 278.300, KRS 278.023 requires the Commission to accept agreements between water districts and RD regarding construction projects, and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements.

KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between RD and McCreary District, or to defer the issuance of all necessary orders to implement the terms of that agreement. It further denies the Commission any authority to reject an application when the evidence of record indicates that a water district's proposed facilities will result in the wasteful duplication of facilities or excessive investment or its proposed rates are unfair, unjust, or unreasonable.

McCreary District's application met the minimum filing requirements of KRS 278.023 on February 14, 2012. The Commission, therefore, is not able to review this application using the same standards that are used for applications that are not filed pursuant to KRS 278.023.

The Commission notes that, while the proposed improvement project does not involve McCreary District's sewer facilities and none of the funds that RD will provide will be directly used for sewer facilities, the agreement between RD and McCreary District requires an increase in sewer rates. This requirement effectively prevents the Commission from examining these rates and deprives McCreary District's customers of any opportunity to review and comment upon these rates. While the Commission recognizes RD's need to protect its financial interests in the water district, we are of the opinion that the better course is for RD to require McCreary District to apply to the Commission for an adjustment of its sewer rates using traditional ratemaking procedures.² This course allows for a more thorough and complete examination of the proposed sewer rates, permits McCreary District's ratepayers to participate in the review process and to question their utility officials, and would enhance public confidence in and acceptance of the final rates.

Therefore, we recommend, pursuant to KRS 278.023(3) that RD refrain from requiring, as a term of its financing agreements with water districts and water associations, rates for services that are unrelated to the services that the financed improvements will provide and that RD instead require the water district or association

² KRS 278.180-.190.

to apply to the Commission for an adjustment of those rates using traditional ratemaking procedures.

IT IS THEREFORE ORDERED that:

1. McCreary District is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. McCreary District's proposed plan of financing is accepted.
3. McCreary District is authorized to issue \$1,300,000 of its Series A Waterworks Revenue Bonds at an interest rate not exceeding 2.5 percent per annum, and \$635,000 of its Series B Waterworks Revenue Bonds at an interest rate not exceeding 2.25 percent per annum, both maturing over 40 years.
4. The proceeds from the proposed bond issuance shall be used only for the purposes specified in McCreary District's application.
5. Notwithstanding ordering paragraph 4, if surplus funds remain after the approved construction has been completed, McCreary District may use such surplus to construct additional plant facilities if RD approves of the use and the additional construction will not result in a change in McCreary District's rates for service. McCreary District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.
6. McCreary District shall file a copy of the "as-built" drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certified herein.

7. McCreary District shall require the construction to be inspected under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

8. McCreary District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

9. The rates set forth in the Appendix to this Order are approved for service that McCreary District renders on and after the date of this Order.

10. Within 30 days of the date of this Order, McCreary District shall file revised tariff sheets with the Commission that set forth the rates contained in the Appendix to this Order.

11. Any documents filed in the future pursuant to ordering paragraphs 5, 6 and 8 of this Order shall reference this case number and shall be retained in the utility's general correspondence file.

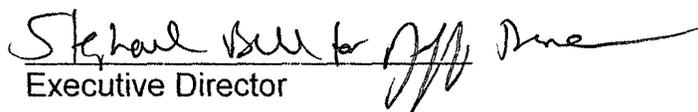
12. The Executive Director shall serve a copy of this Order upon RD's State Director.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

By the Commission

ENTERED ^{PA}
MAR 15 2012
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2012-00053

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00053 DATED **MAR 15 2012**

The following rates and charges are prescribed for the customers in the area served by McCreary County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Proposed Monthly Water Rates

Residential and Non-Residential Rates:

| | | |
|-------|---------------|--------------------------|
| First | 2,000 Gallons | \$17.35 Minimum Bill |
| Over | 2,000 Gallons | \$6.25 Per 1,000 Gallons |

Federal Correctional Facility Rates:

| | | |
|-------|-------------------|--------------------------|
| First | 1,950,000 Gallons | \$12,575.00 Minimum Bill |
| Over | 1,950,000 Gallons | \$6.25 Per 1,000 Gallons |

Cumberland Falls State Park Rates:

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|-------|-----------------|--------------------------|
| First | 600,000 Gallons | \$2,600.00 Minimum Bill |
| Over | 600,000 Gallons | \$3.98 Per 1,000 Gallons |

Whitley County Water District Rate: \$3.48 Per 1,000 Gallons

Oneida, Tennessee Rate: \$3.48 Per 1,000 Gallons

Proposed Monthly Sewer Rates

Residential and Non-Residential Rates:

| | | |
|-------|----------------|--------------------------|
| First | 2,000 Gallons | \$16.00 Minimum Bill |
| Next | 8,000 Gallons | \$5.75 Per 1,000 Gallons |
| Next | 10,000 Gallons | \$4.85 Per 1,000 Gallons |
| Over | 20,000 Gallons | \$4.65 Per 1,000 Gallons |

Federal Correctional Facility Rates:

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|-------|-------------------|--------------------------|
| First | 1,300,000 Gallons | \$7,215.00 Minimum Bill |
| Over | 1,300,000 Gallons | \$4.65 Per 1,000 Gallons |

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